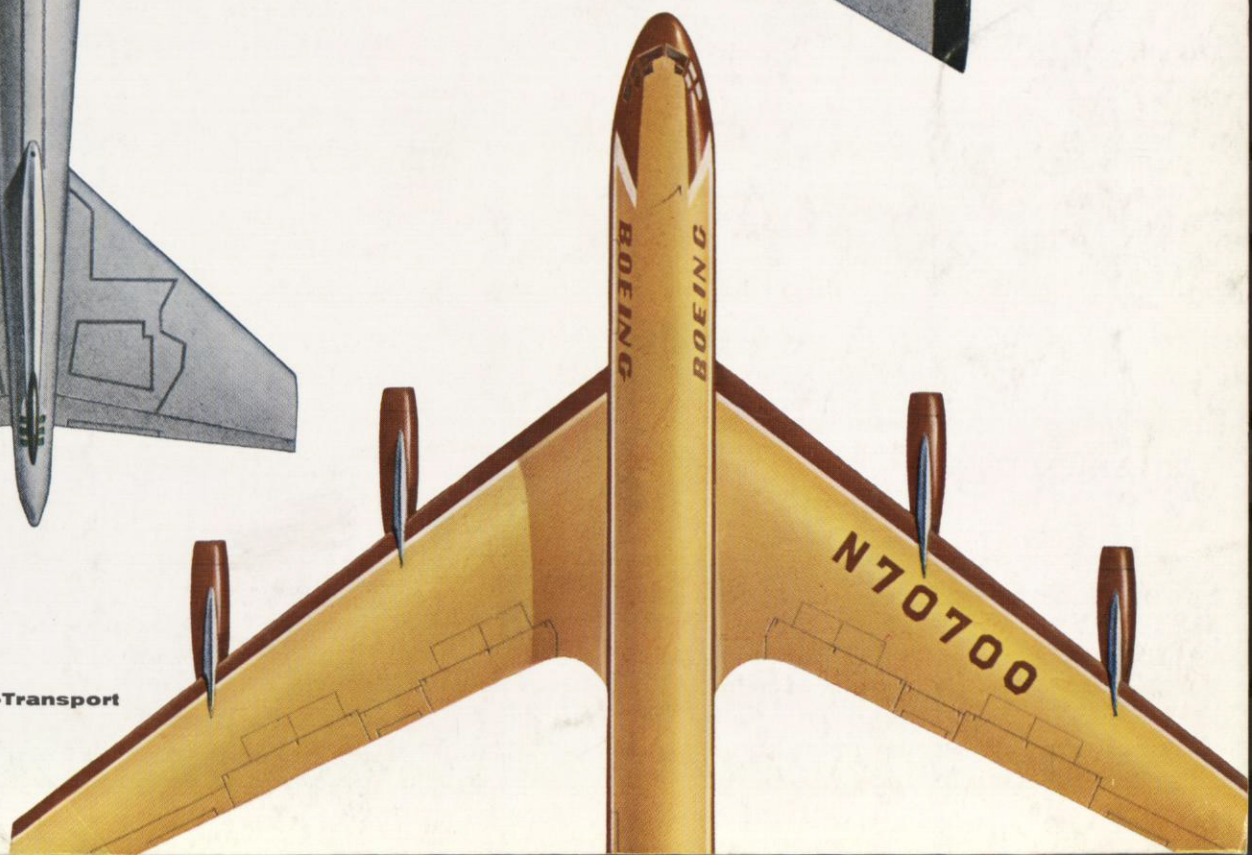


BOEING

Annual Report-1954



Jet Tanker-Transport





ON THE COVER—Artist's renderings of Boeing's present production airplanes—the B-52, B-47 and KC-97, plus prototype jet tanker-transport, which made debut in 1954.

CENTER SPREAD—Full color photo reproduction shows the prototype jet tanker-transport high above clouds on one of the flights of its highly successful test program.

Annual Report—1954

Report to Stockholders

Year Ended December 31, 1954

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Contents of this report comply with national security requirements concerning publication of military information.

BOEING AIRPLANE COMPANY

Highlights

Operating Summary

	1954	1953
Sales	\$1,033,176,265	\$918,245,946
Earnings before taxes on income	\$76,726,023	\$58,818,178
Taxes on income	\$39,750,000	\$38,500,000
Net earnings	\$36,976,023	\$20,318,178
Dividends paid	\$9,729,122	\$5,676,768
Net earnings per share	\$11.39	\$6.26
Dividends paid per share	\$3.00	\$1.75
Percentage of earnings before taxes on income to sales	7.43%	6.40%
Percentage of taxes on income to sales . .	3.85%	4.19%
Percentage of net earnings to sales	3.58%	2.21%

Position at Year End

Working capital	\$86,829,998	\$60,218,843
Ratio current assets to current liabilities .	1.61 to 1	1.40 to 1
Stockholders' investment	\$109,441,257	\$82,194,356
Number of shares outstanding	3,246,436¾	1,623,681
Stockholders' equity per share	\$33.71	\$25.32
Backlog	\$2,131,000,000	\$2,357,000,000

General Information

Total wages and salaries	\$300,244,415	\$261,682,685
Average number of employees	65,054	58,716
Gross additions to plant and equipment .	\$5,061,959	\$8,009,875

NOTE: All per share figures adjusted on an equivalent basis to the 3,246,436¾ shares outstanding at December 31, 1954.

President's Letter



To the Stockholder:

In terms of tangible achievements, expressed both in sales volume and in the development of new products, 1954 was an outstanding year for the Boeing Airplane Company.

Sales of \$1,033,176,265 and net earnings of \$36,976,023 after taxes were the largest ever attained by the company. The amounts are indicative of the high level of activity throughout the year at both the Seattle and Wichita Divisions.

Two aircraft types now well established in service constituted the principal source of the company's income in 1954. These were the B-47 medium jet bombers and reconnaissance airplanes, more than a thousand of which have been delivered to the Air Force by Boeing, and the KC-97 tanker-transport, now serving as standard aerial refueling equipment for Air Force bombers and fighters. Production of the C-97 type airplane passed the 600 mark during the year.

The B-52 heavy jet bomber meanwhile has been moving closer to a position of central importance in the company's work programs. The first production model B-52A was rolled out of the Seattle plant early in 1954 and production was increasing according to schedule in the later months of the year. The second source produc-

tion program for the eight-jet airplanes at Wichita was proceeding on schedule.

With work on the C-97, B-47 and B-52 programs continuing during 1955, another good year is expected. Even though the company's plants will be operating at a high level of activity, it is anticipated that sales in 1955 will be somewhat lower than in 1954. The reduced sales volume will be occasioned by the previously-announced extensions in deliveries of C-97 and B-47 airplanes and the effect of the transition of follow-on quantities under the B-52 program from a cost-plus-a-fixed-fee to a fixed-price contract basis. The accounting policy in regard to the reporting of sales under these types of contracts is explained in the Financial Section.

Gratifying progress has been made on two other products developed by the company, both of which appear to have a substantial future potential—a jet tanker-transport and the Bomarc guided missile. Successful completion and flight of the company-financed jet prototype was followed by receipt of an initial Air Force production order for an advanced version of the airplane. On March 2, 1955, the Air Force announced its intention to standardize on this airplane as its

jet tanker and stated that substantial additional orders would be placed. Considerable active interest also has developed among airline operators in a commercial application of the plane. Our entry into the commercial field is as yet undetermined. We desire such a commercial development if it can be accomplished on a sound financial basis and without interfering with our military commitments.

The Bomarc IM-99 interceptor missile project, still in the advanced development and test stage, moved forward at an increasing rate during the year, with some major milestones passed. These cannot be detailed because of the military security which surrounds the project.

Stockholders during the year received four quarterly cash dividends totaling \$3.00 per share on the basis of the number of shares outstanding at the end of the year. A stock dividend of one share for each share held also was distributed following stockholder approval of an increase in the number of authorized shares. The company has followed a dividend policy which we feel is in the best interests of the stockholder on a long-range basis. Our business has been characterized by rapid change and growth, which

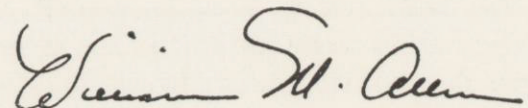
has made it desirable to reinvest a substantial portion of earnings in order that the company could maintain a position of leadership in the industry and by so doing accomplish the vital job expected of it in the country's defense program.

We likewise have been conscious of the need for constantly developing our organization. The abilities of individual people are our most valuable asset. These abilities, organized into a team effort and matched with tools and facilities equal to the task being attempted, form the foundation for the achievement of our objectives. Progress was made in the field of organization and personnel development during 1954.

The Board of Directors has recommended a change in the by-laws to permit the establishment of a retirement plan or plans within the company which would include benefits for past service. This, if approved by stockholders, should assist in retaining and attracting able employees.

Although we can look back on a year of unusual achievement, we must constantly bear in mind that our business is largely dependent on the stability of the defense program and on our ability to compete for the available business. Our organization must continue to develop its capabilities in order to obtain business in the manner that best serves the American people—on the basis of merit. Our aim is to continue to deliver quality products on schedule at the lowest cost consistent with such quality; and to broaden the traditional Boeing program of research in order to assure our customers—and ultimately the American people—that the products of Boeing will continue to make substantial contributions toward air supremacy.

For the Board of Directors



PRESIDENT

March 7, 1955

President William M. Allen (left) confers with Wellwood E. Beall, senior vice-president, and Edward C. Wells (right), vice-president-engineering. Reporting to Beall are the Wichita, Pilotless Aircraft and Industrial Products Divisions and the principal operating departments of the Seattle Division. Wells has policy direction of all engineering and sales activities of the company and is chairman of the Planning Committee.

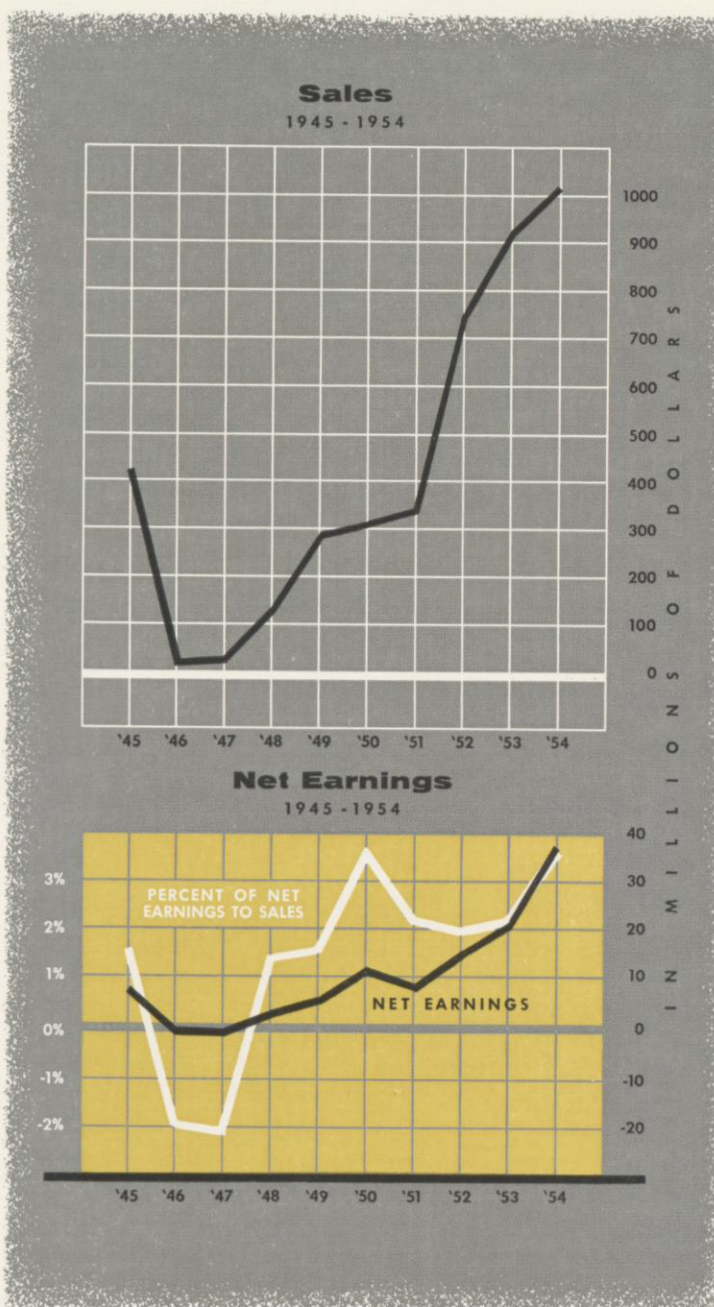


Financial

The year 1954 was the first in the company's history in which sales exceeded a billion dollars. Sales totaled \$1,033,176,265, an increase of \$114,930,319 over the previous year. Net earnings, after taxes on income, were \$36,976,023 compared to \$20,318,178 for 1953. Federal and state income taxes totaled \$39,750,000. Net earnings amounted to 3.58 cents per dollar of sales and were equivalent to \$11.39 per share, which compares with \$6.26 per share (adjusted on the basis of the shares outstanding at Dec. 31, 1954) for the previous year.

The increase in net earnings resulted primarily from expiration of the excess profits tax. It is also attributable to increased sales, and a reduction in expenditures for the company's prototype jet tanker-transport project. Expenditures on the prototype project in the amount of \$3,656,159 are included in 1954 research and developmental expenses and were charged directly to earnings.

Approximately 75 per cent of the year's sales were under fixed-price contracts containing incentive provisions. Continued favorable cost trends enabled the company to attain profit margins comparable to those experienced on contracts of this type in 1953. The contracts provide for the negotiation of a "target" price on the basis of cost experience gained up to an interim date. If, upon completion of the contract, the articles have been produced at a cost lower than



the target, earnings are increased by a specified portion of the savings, usually 20 per cent under current contracts. In turn, the sales price to the government is reduced by the 80 per cent balance of the savings. If the target is exceeded, a corresponding percentage of the cost in excess of the target is borne by the company and the remainder by the government.

Although net earnings increased to 3.58% of

sales as compared to 2.21% in 1953, they still were substantially below the 6% to 7% realized by all manufacturing industry in general.

On April 27, 1954, the stockholders approved an increase in the authorized number of capital shares from 2,500,000 to 5,000,000. Following this approval the Board of Directors voted to issue to stockholders one additional share of stock for each share held. This brought the total number of shares outstanding to 3,246,436 $\frac{3}{4}$.

With the issuance of the additional stock the Board directed that \$24,796,586 from earnings retained for use in the business be transferred to the capital stock account and that the total value of the shares then outstanding be stated at \$60,000,000.

Dividend Policy

In accordance with the policy established by the Board in January, 1954, dividends were paid on a quarterly basis. Cash dividends of \$9,729,122 were paid during the year. The payments, including special dividends in September and December, amounted to \$3.00 per share on the basis of the number of shares outstanding at the end of the year. At its January, 1955, meeting the Board of Directors declared the established 50-cent quarterly dividend plus a special dividend of 25 cents payable on March 10 to stockholders of record as of the close of business February 17.

Dividends of \$1.00 per share, or more, on the basis of shares outstanding at the year-end have been paid in each of the past 13 years, even during years of losses and low earnings. The conservatism of the cash dividend policy during recent years has been dictated by the need for substantial resources to finance the rapid growth of the company's activities and to assure a strong and continuing policy of product development. The retention of earnings resulting from this policy contributed to the development of the prototype jet tanker-transport and to otherwise achieving the company's present position of leadership in the airframe industry. Through stock dividends, the stockholders have participated in the growth of the company. Stock dividends of 50 per cent in 1952 and 100 per cent in 1954 were distributed.

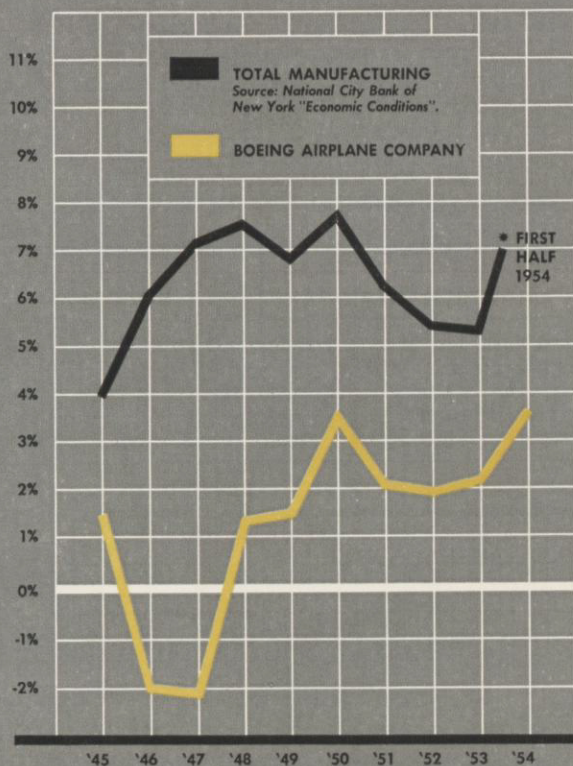
Investment Increases

The net worth of the company increased \$27,246,901 during the year and now totals \$109,441,257. Stockholders' equity at year end was \$33.71 per share, as compared to \$25.32 a year earlier, adjusted on an equivalent basis to the shares outstanding at Dec. 31, 1954.

Working capital amounted to \$86,829,998 at the year end, an increase of \$26,611,155 over

Per Cent of Net Earnings to Sales

1945 - 1954



that at the close of the previous year. Although bank borrowings were not required during the year, the company continues to maintain an open line of credit with commercial banks in the amount of \$51,850,000. During the year the government issued a directive reducing the percentage of progress payments for work in process on all fixed-price contracts thereafter negotiated. Because of this policy change, as well as the requirement for accelerated payments of federal income taxes and further expenditures for capital facilities, it is anticipated that bank borrowings will be necessary in future years.

Expenditures of \$5,061,959 during 1954 brought the gross investment in property, plant, and equipment at the end of the year to \$46,484,702. This amount includes facilities with an original cost of \$14,413,158 which, although still in use, have been fully depreciated or amortized as of the year end. Certificates of necessity have been obtained during the present emergency period on facilities costing \$17,235,588. The certified portion of the cost of these facilities in the amount of \$12,599,746 is being amortized over a 60-month period.

Depreciation and amortization of \$4,030,572, including amortization of \$1,728,987 in excess of normal depreciation, was charged to operations in 1954. On the basis of determinations by the government, a portion of the amortization in excess of normal depreciation applicable to certain capital facility items will be eligible for inclusion as a contract cost.

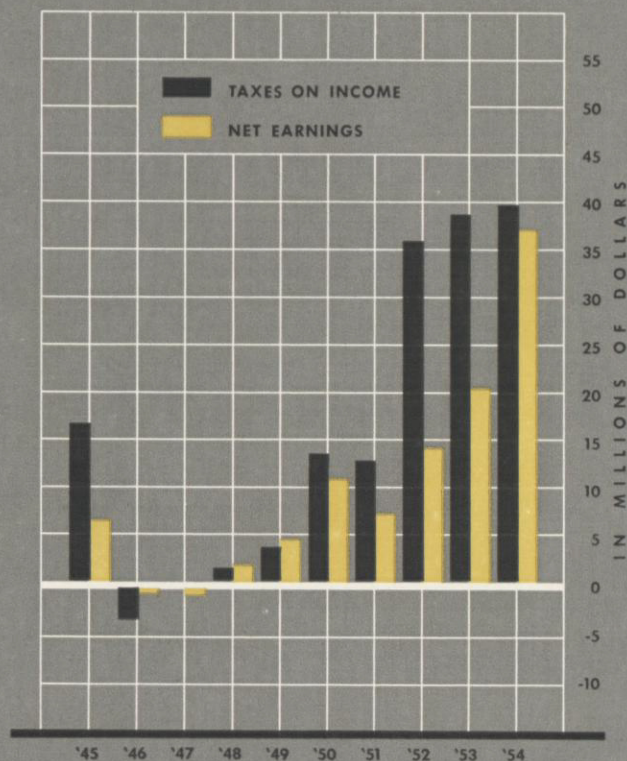
Depreciation on additions to property, plant, and equipment acquired subsequent to Dec. 31, 1953, has been computed on the basis of the accelerated methods specifically provided for by the Internal Revenue Code of 1954. These allow the write-off of a greater portion of the cost of an asset in the earlier years of its life than is obtainable under the straight line method utilized on assets acquired prior to Dec. 31, 1953. This change in the method of computing depreciation



J. O. Yeasting (left), vice president-finance, has overall direction of company financial matters. Evan M. Nelsen (center), treasurer, directs raw material storage and reclamation in addition to his normal functions. Clyde Skeen (right), controller, also directs contract price estimating.

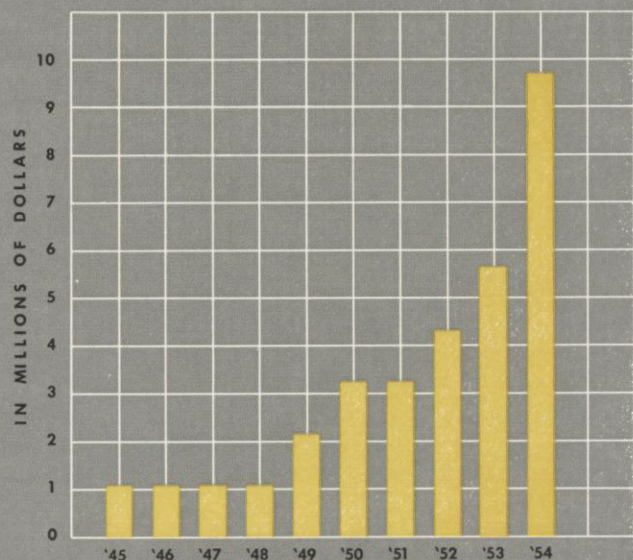
Taxes and Net Earnings

1945 - 1954



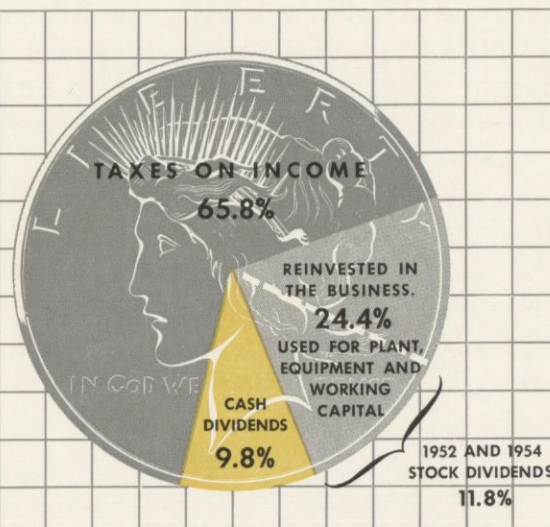
Cash Dividends

1945 - 1954



Disposition of Earnings*

1934 - 1954



*TOTALING \$392,408,000 BEFORE TAXES
(Since inception of the present corporation in 1934)

had only a negligible effect on earnings for the year 1954.

Federal income tax returns for all years through 1949 have been examined and agreements reached except for claims for refund of prior years taxes, including claims under Section 721 of the Internal Revenue Code of 1939, which have not been recognized in the accounts. Returns for 1950, 1951, and 1952 are currently being examined. It is believed that the income tax liability stated in the balance sheet is adequate to cover any net deficiencies that may be determined.

Renegotiation and Backlog

Final renegotiation clearances for all years through 1951 have been received. Although renegotiation proceedings relative to 1952 and 1953 earnings are currently in process, information as to final determinations for these years is not yet available. Earnings in 1954 on government contracts are subject to review under the

provisions of the Renegotiation Act. It is the company's opinion that earnings realized in 1954, as well as in 1952 and 1953, were not excessive and that renegotiation refunds should not be required. However, since a final determination on these matters has not been made, and since other possible contractual adjustments cannot be finally determined at this time, the allowance for contract adjustments, including renegotiation, of \$1,200,000, net of taxes, has been retained on the balance sheet.

The backlog of unfilled orders, substantially all of which is under contracts with the government, totaled approximately \$2,131,000,000 at the year end, compared with a total of \$2,357,000,000 at the close of the previous year. Included in the total, but only to the extent allocated, are the starting or implementing funds on letter contracts for which definitive contracts had not yet been signed.

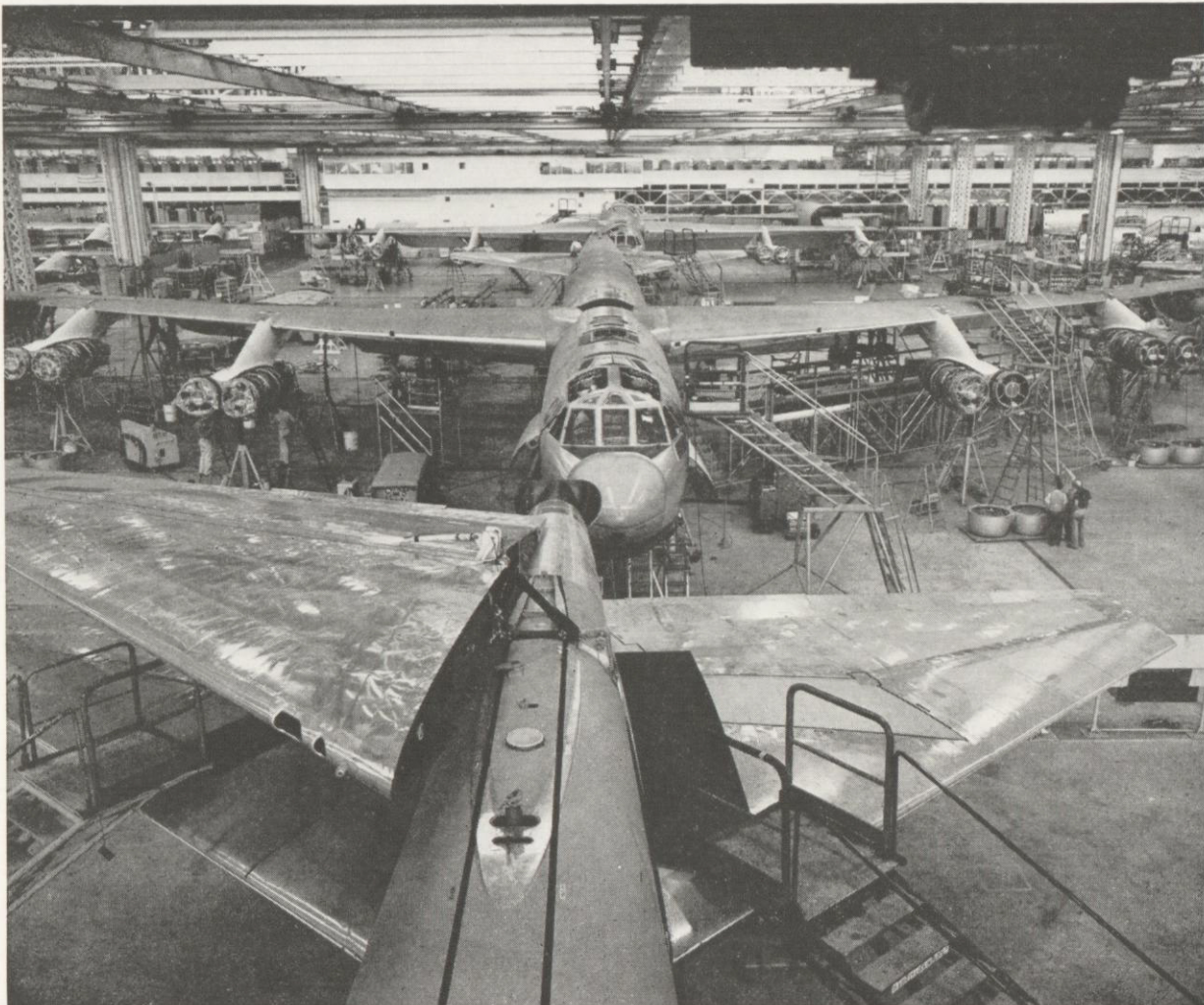
Approximately 88.4 per cent of the backlog as of December 31 was under fixed-price con-

tracts containing incentive provisions. The balance consisted principally of cost-plus-a-fixed-fee contracts which are the type usually employed for research, experimental, and early stage production projects.

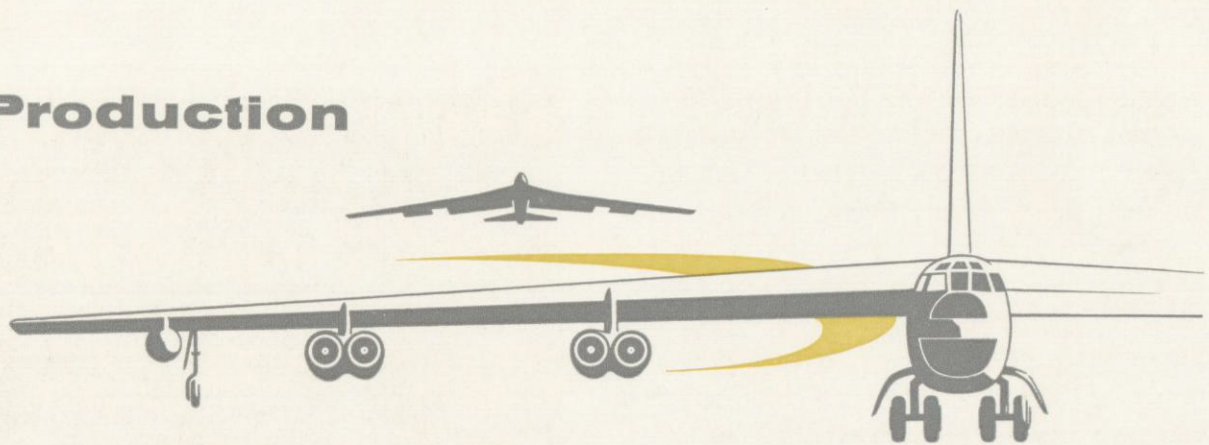
Based on present schedules, and current estimated selling prices of items to be delivered, it is expected that sales volume for 1955 will be somewhat lower than that for 1954. The lower volume of sales will result from reduced deliveries

of C-97 and B-47 airplanes and the transition of the B-52 program from a cost-plus-a-fixed-fee basis to a fixed-price basis. The initial quantity of B-52's was contracted for on a cost-plus-a-fixed-fee basis wherein sales are included in the accounts as costs are incurred and fees are earned. The follow-on quantities of B-52's are on fixed-price contracts under which sales are not recorded until deliveries of the completed units have been made.

Long-range B-52's in various stages of completion in Seattle final assembly. Additional orders for the eight-jet bomber were received during year at Seattle, Wichita.



Production



The year 1954 was an eventful one, in which production efficiency reached an all-time high and new aircraft important to the future took to the air.

The prototype jet tanker-transport was rolled out of the factory on May 14 and made its first flight July 15. Three weeks later the Air Force

announced that it was ordering a limited quantity of an advanced version of the airplane.

The first production model B-52 was rolled from the factory in March. The 1,000th B-47 built at the Wichita Division was delivered to the Strategic Air Command December 17 on the seventh anniversary of the first flight of the original XB-47.

On both B-47's and KC-97's, the number of man hours of work required per pound of output continued to be reduced during the year beyond the point expected by the normal improvement that comes with continuous production. Substantial effort was devoted throughout the year to developing and implementing new and more efficient manufacturing methods and techniques.

In addition, continuous cost reduction and efficiency practices directed toward the accomplishment of economical utilization of manpower, materials, and facilities resulted in reductions in costs totaling many millions of dollars.

Estimated cost reductions of \$2,235,000 resulted from 2,637 employee suggestions adopted during the year, for which \$192,180 was paid in awards.

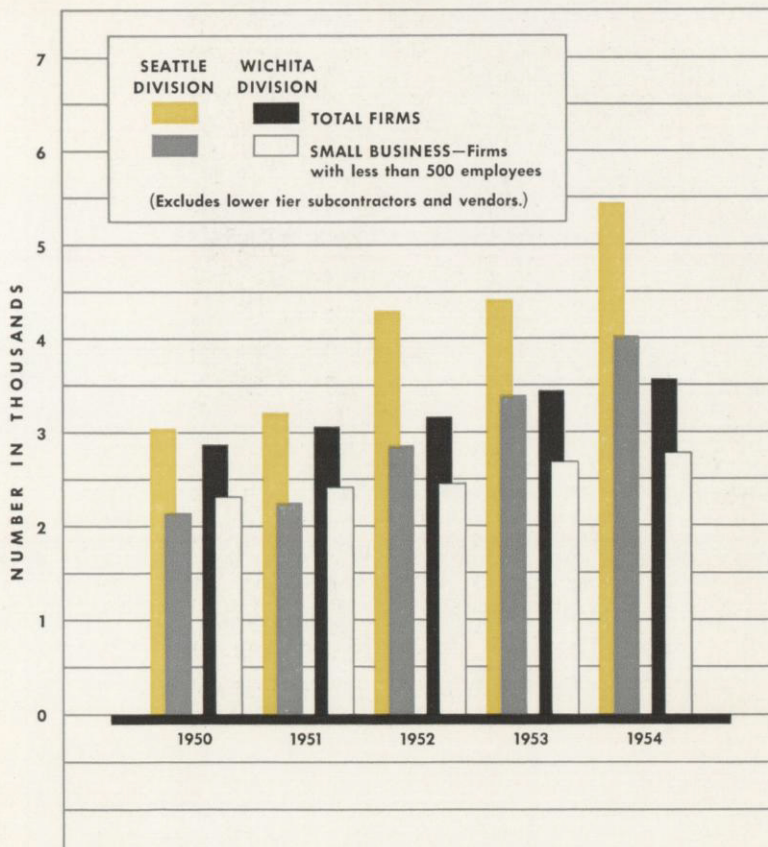
Spare Parts—Subcontracting

Shipment of spare parts and special equipment amounted to a record \$189,000,000 for 1954, an increase of \$45,000,000 over the figure for 1953.

Subcontracting and the purchase of vendor-

Subcontractors and Vendors

1950 - 1954

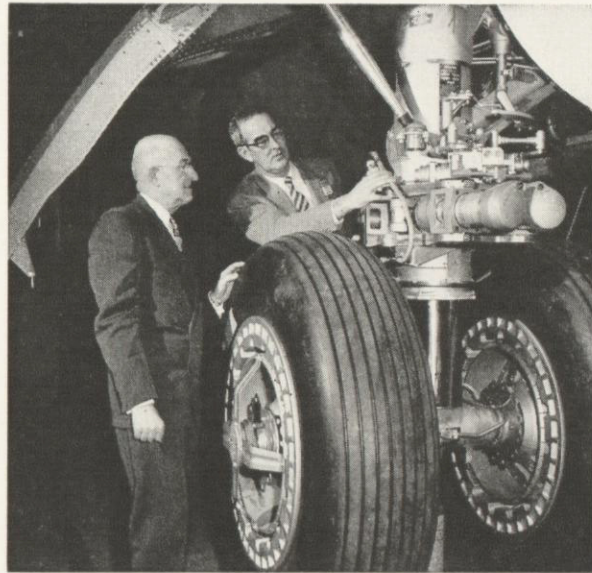


supplied parts and materials continued in 1954 to take the largest share of each sales dollar. Approximately 65 cents of each customer dollar has been passed on by Boeing to other firms.

By recent count, 5,471 businesses, 4,008 of them classified as small (less than 500 employees), were serving Boeing's Seattle Division in its combined production and experimental programs. There were 3,588 subcontractors and suppliers participating in the production program of the Wichita Division. Of these, 2,785 were classified as small businesses.

B-52 Work Expands

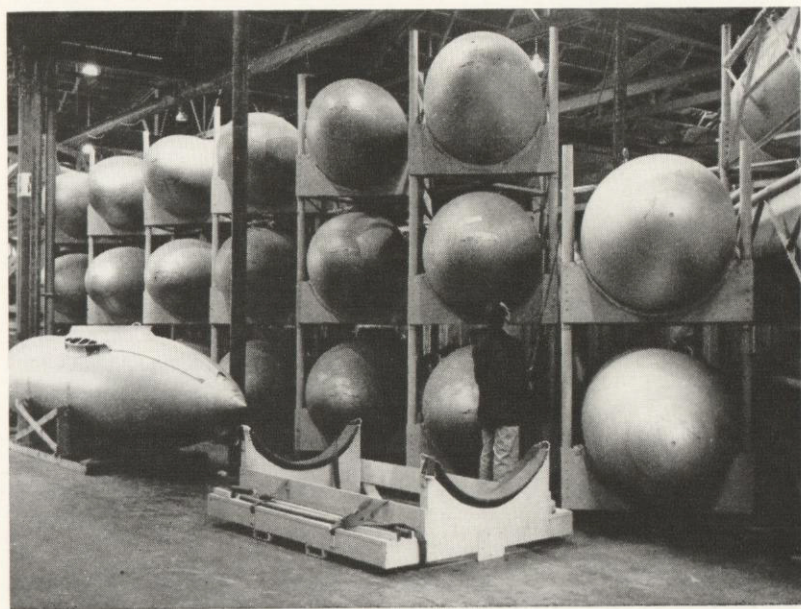
Described by Air Force Chief of Staff Gen. Nathan F. Twining as "the long rifle" of the air age, the eight-jet B-52 was fast becoming



Fred P. Laudan (left), vice president-manufacturing, and Robert L. Regan, Seattle Division operations manager. Laudan has general direction Seattle Division production and experimental manufacturing; policy direction for manufacturing in other divisions. Regan oversees purchasing, factory operations, production, industrial engineering.

Stratoforts on the line. B-52's undergo preflight installations at Seattle. The 175-ton airplane is to become the Air Force new standard long-range bomber.





Subcontracted wing tanks in storage await installation on B-47's at Wichita. The products of thousands of firms go into Boeing bombers and transport airplanes.

Boeing's largest single project in terms of total manpower and productive effort. Although any new aircraft project is subject to numerous early-stage production changes, the B-52 program was in a better position at the year-end than any previous Boeing program at a similar stage. While the Seattle Division was rolling out B-52's on schedule, the Wichita Division was well along on its preparations for second-source production of the heavy bomber.

Production orders for B-52's at both plants were increased during the year.

Early in 1955, Seattle-built B-52's started flying to the new Boeing-operated Moses Lake Flight Center in central Washington. Here they will receive final equipment installations and acceptance checkout for delivery to the Air Force.

The 175-ton airplane, described as the best bomber in the world today, shortly after the end of the year passed the 1,000th hour of highly successful experimental and production flight test by Boeing and Air Force crews.

B-47 Leads Sales

Deliveries from the Wichita Division of the B-47 medium bomber and its sistership, the RB-47 photo reconnaissance airplane, accounted for the largest portion of Boeing sales for 1954.

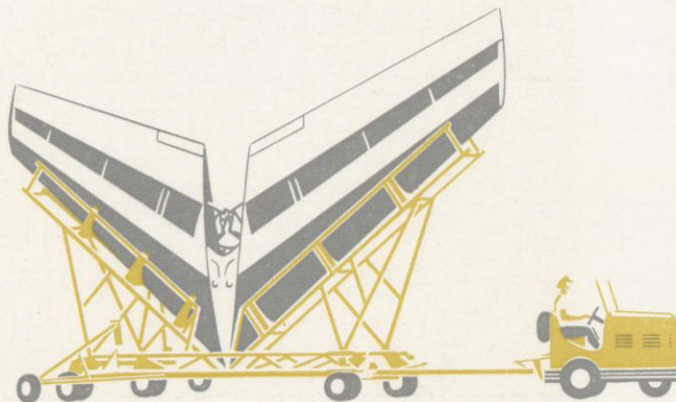
These airplanes have entered service in quantities sufficient to allow the Strategic Air Command to retire the last of its World War II piston-engine Boeing B-29 Superfortresses from bombardment and reconnaissance wings.

As of the end of the year, man-hours required per pound of airframe weight in the manufacture of the six-jet airplanes had been reduced to only 7 per cent of those required for the first production model. At the same time, deliveries had been on schedule thirty-seven consecutive months.

Numerous equipment installations and other refinements improved the B-47's operating capabilities. Earlier B-47's, returned to Wichita for inspection and repair as necessary, are being brought up to date through incorporation of these same changes.

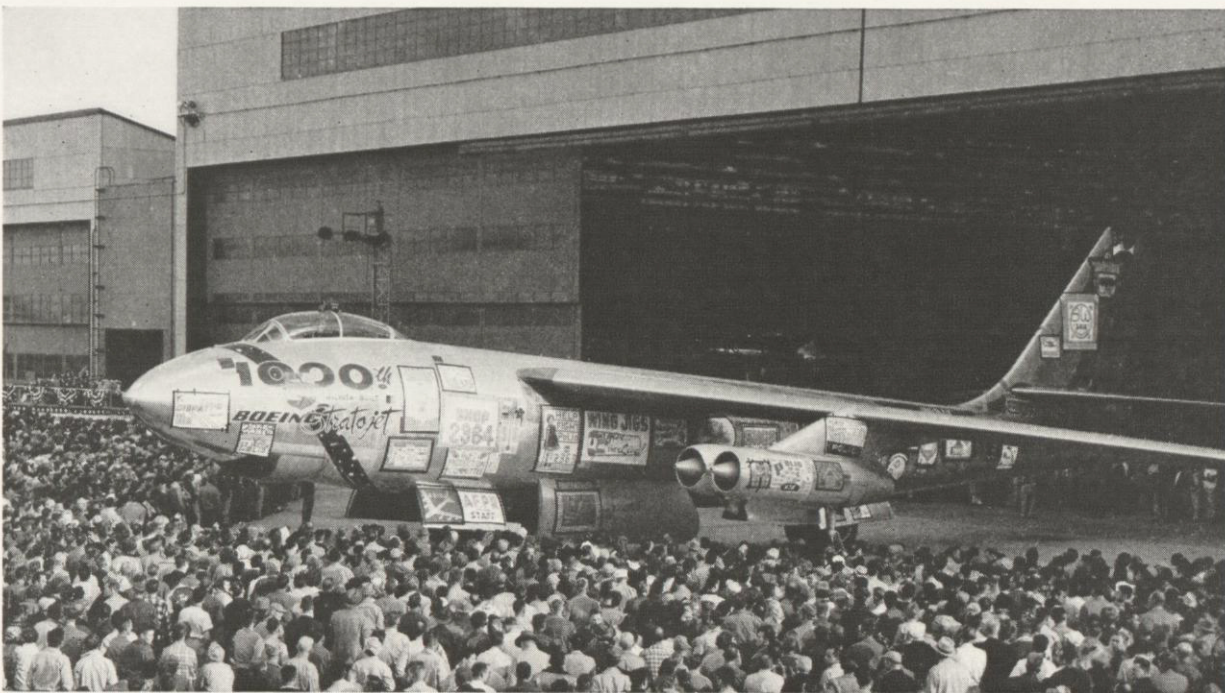
Highlighting numerous headline-making

The 100-ton B-47 Stratojet is the nation's current first-line bomber. Shown right is part of crowd of employees as 1,000th Wichita-built B-47 was rolled out in October.





First production-line B-52A over Puget Sound country. Extensive testing of Stratoforts continues to add valuable data on big bomber's capabilities and growth potential.





J. E. Schaefer (center), vice president, and general manager of Wichita Division, examines B-47 body section with two of his top aides. Chief Engineer N. D. Showalter (left) directs 2,300-man engineering department. C. B. Gracey, vice president-manufacturing, has responsibility for factory and allied operations including industrial engineering, purchasing and production engineering.

achievements of Stratojets during the year was a 21,000-mile non-stop flight in November. One of the swept-wing bombers stayed aloft 47 hours, 35 minutes, being refueled by Boeing KC-97's.

Early in the new year of 1955 another B-47 set a new unofficial transcontinental record for its type, flying from California to Georgia in 3 hours, 19½ minutes at an average speed of 641 mph.

KC-135 Work Begins

The company's decision in 1952 to produce with its own funds a prototype jet tanker-transport proved fruitful when the Air Force, in August, ordered a limited quantity of the four-jet, swept-wing airplane. This initial order was followed in March, 1955, with announcement by Secretary of the Air Force Harold E. Talbott that the service would standardize on the KC-135

Cockpit of prototype jet tanker-transport is comparatively simple; controls and instruments number about half those on conventional transports such as the Stratocruiser.



tanker with placement of substantial additional orders.

The new military airplane, to be known as the KC-135 Jet Stratotanker, will be an advanced version of the prototype. Assistant Air Force Secretary Roger Lewis in December described the project as "one of highest priority for the Air Force and the nation." Tooling, engineering, and other early-stage production work is moving ahead at the Renton (Washington) plant. The company's manufacturing and flight experience with the prototype will make it possible to have operational KC-135's flying many months sooner than otherwise would have been the case.

The prototype by year end had logged 92 hours and 30 minutes of flight test time, averaging 18 hours per month. This exceeded the utilization of any other Boeing prototype in a like period.

Prototype Outstanding

In almost every category the prototype jet tanker-transport exceeded estimated performance. Although no exact figures were released, the four-jet, swept-wing craft has been flown to higher altitudes and at greater speeds than any other transport airplane.

The new airplane was designed for safety, economy, comfort, and ease of maintenance in addition to high performance. It benefits from more than 22,000 hours of Boeing wind tunnel testing on multi-jet powered airplane types and their components. The experience gained through more than 11,000 hours of experimental and production test flying of such airplanes by Boeing crews has gone into the plane, in addition to that gained in manufacturing more than a thousand multi-jet airplanes. Also incorporated are the results of a pre-design survey which sought recommendations of military agencies, airlines, pilots, and the Air Transport Association.

The company is hopeful of entering the

commercial field, but the decision is dependent on military requirements and the financial feasibility of such an undertaking.

KC-97 Record Impressive

One-a-day delivery of the KC-97's was maintained from the Renton plant until early fall, at which time a previously-announced Air Force stretch-out of remaining deliveries took effect.

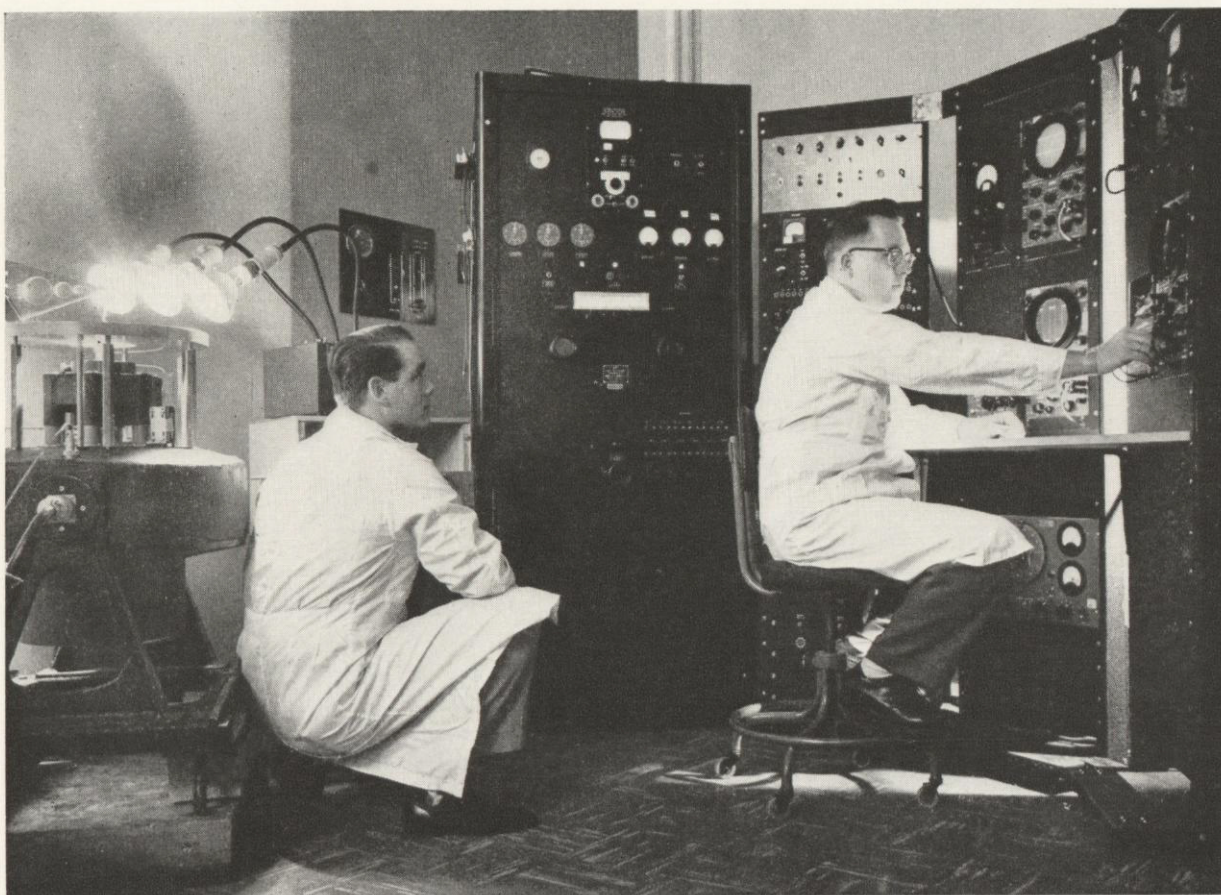
Despite numerous improvements incorporated in the airplane during the year, the man-hours required to produce aircraft of this series continued below the point normally attained. It was proof of the economy of a long, continuing program. Deliveries had been on schedule sixty-five months with but one break in December, 1950, when the quota was missed by a single airplane. This is believed to be a production

Boeing KC-97's at an Air Force base. The tankers in 1954 made 142,000 air refueling contacts with bombers and fighters, averaging one every three and one-half minutes.









Continuing investment in laboratory devices is necessary for ground test purposes. Above is vibration equipment to test and calibrate flight instruments for Bomarc missile.

record for military aircraft of any type.

The Strategic Air Command, principal user of the KC-97, announced that the big craft had participated in 142,000 air refueling hookups with B-47's and F-84 fighters during the year, an average of one every three and one-half minutes around the clock.

"Air refueling," said a Strategic Air Command year-end summary, "is now as important to SAC global operations as are takeoffs and landings. Fuel can be transferred day or night in good weather or bad." Refueling, it added, now extends the range of the B-47 and F-84 "to the limit of crew endurance."

Missile Work Progresses

Notable progress was made by the company's Pilotless Aircraft Division in the development of its missile during the year. Management and organization also were further strengthened.

While it is one of the most important divisions of the company in terms of future growth potential, a description of this division's activities is limited by security restrictions. The division is engaged in the development of the IM-99 Bomarc, a long-range supersonic interceptor missile for the Air Force. Experimental test firings are now a part of the developmental program.

The broad engineering problem, so far as unmanned interceptor aircraft are concerned, is to design a very high-performance aircraft together with guidance and control systems capable of controlling it accurately. Propulsion is by rocket-powered boosts to get the vehicle off the ground and ramjet power for sustained flight.

As of the end of the year, approximately 2,500 persons were engaged in various phases of IM-99 work at Boeing. Approximately 15 million man hours of work have been devoted to missile research and development since 1945.

Industrial Products

The company has determined that it will confine its efforts in the gas turbine field to products which support its aircraft and to carrying out commitments to present customers for turbine products. The lightweight Boeing turbine is being used on portable carts to supply compressed air for starting large jet engines on airplanes such as the B-52 and to turn generators on Navy minesweepers.

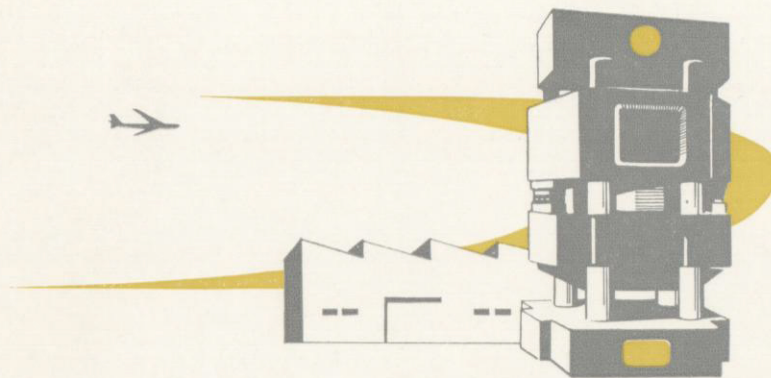
Analog computer research and development is being discontinued because of low potential sales volume in relation to investment required.



Heading company's important Pilotless Aircraft Division are Director Lysle A. Wood (center), Chief Engineer Robert H. Jewett (left) and Manufacturing Manager A. W. Jacobson. The trio is examining model of an early Boeing missile.



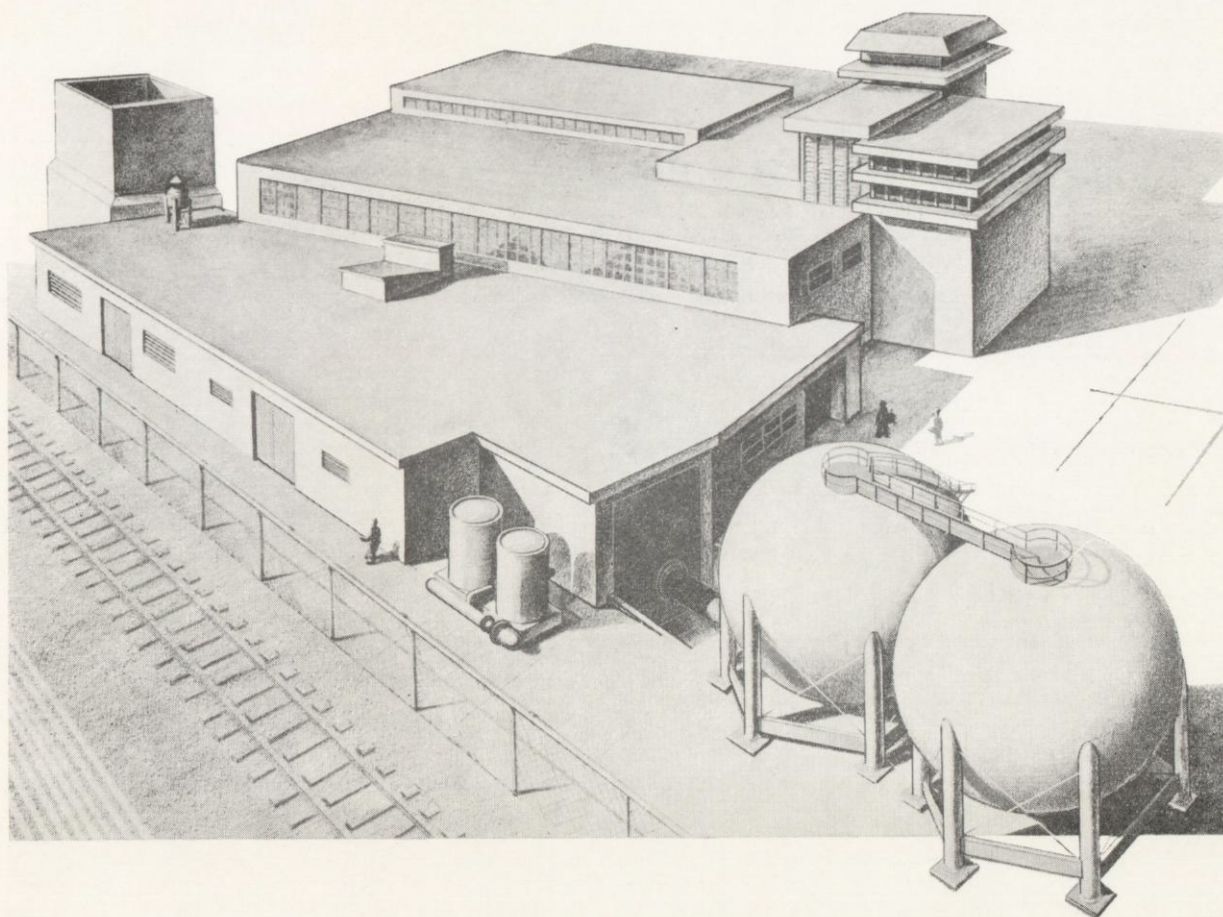
Facilities



The company invested \$5,061,959 in capital assets during 1954. This brought to \$27,901,285 the company funds spent for facilities in the past five years. The government in the same period made expenditures substantially in excess of this amount on facilities operated by Boeing.

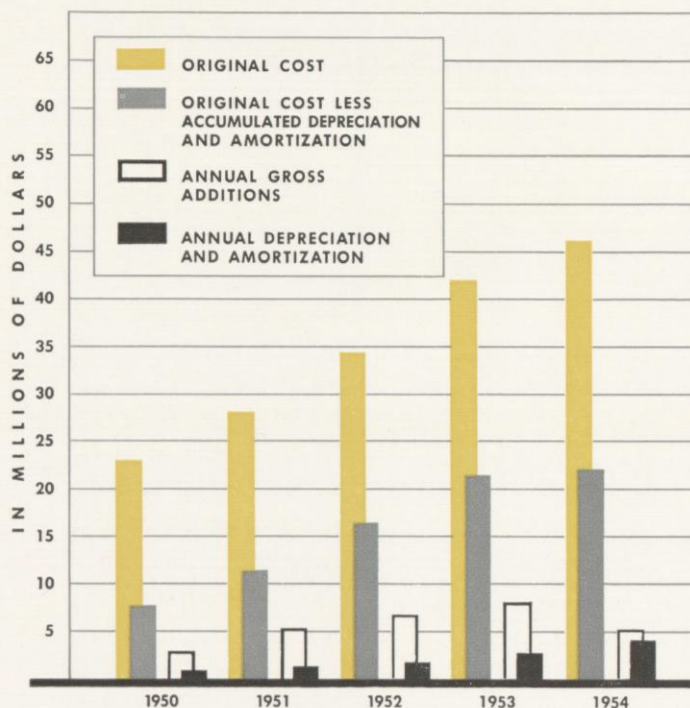
Artist's conception of supersonic wind tunnel on which construction will start in 1955. A separate unit from the existing tunnel (rear), its speed will exceed 2500 mph.

Several major projects involving company funds were being actively planned or considered as the year ended. Authorized for immediate construction were a \$2,175,000 supersonic wind tunnel and a \$218,000 addition to the jig building. Other requirements under consideration include an integrated facility for the construction of prototype airplanes, an airplane modernization and repair facility and new laboratory facilities



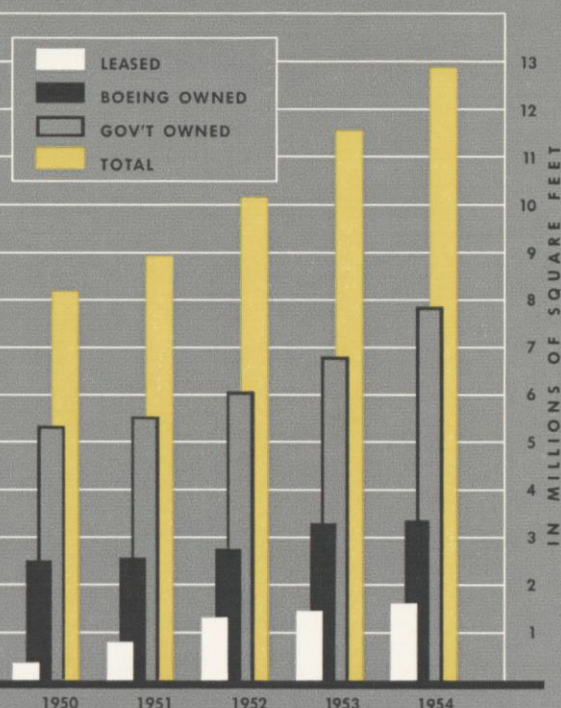
Company Investment in Property, Plant and Equipment

1950 - 1954



Floor Area

1950 - 1954



related to the development of high performance aircraft and missiles.

At Wichita during the past year the government has financed erection of a cafeteria-office building, a reprocess building, and a materials handling building. Largest of these is the 773,380 sq. ft. materials handling building.

The new wind tunnel, to be completed by the middle of 1956, will be capable of speeds of from 1.2 to 4 times the speed of sound or from approximately 761 to more than 2,500 miles an hour. The existing tunnel operates from low speeds to 1.2 times the speed of sound. With the two tunnels Boeing will have available facilities of inestimable value for the expeditious testing of advanced aircraft and components.

During 1954 at Seattle, construction was started on a \$2,600,000 material storage and handling building to be completed in 1955. The

\$5,800,000 flight center and the government-financed electronics and fabrication buildings were fully occupied and the engineering power plant test center was expanded. In addition, construction was commenced on a government-financed improvement in B-52 preflight and fueling facilities.

New Flight Center

Largest of the Seattle Division facility projects started in 1954 was the new Moses Lake Flight Center in central Washington State. Limited operations at this government installation started in February, 1955.

During the year, floor space in company-owned or leased and government-owned buildings was increased by 1,300,514 sq. ft. to a new total of 12,880,621 sq. ft.

Engineering



Events which most significantly indicate the technical activity of the engineering departments over the past year were the first flight in July of the jet tanker-transport prototype, the Air Force decision to order jet tankers, the first flight in August of the production B-52 and continued development of the B-47.

Engineering during 1954 strengthened its design and research staffs, increased its research facilities—already probably the most complete in the aircraft industry—and instituted new projects and studies.

Indicative of the ever-increasing importance of technology in the company's products is the constant growth of the total engineering effort. The engineering departments of the company's various divisions totaled 8,145 persons at the

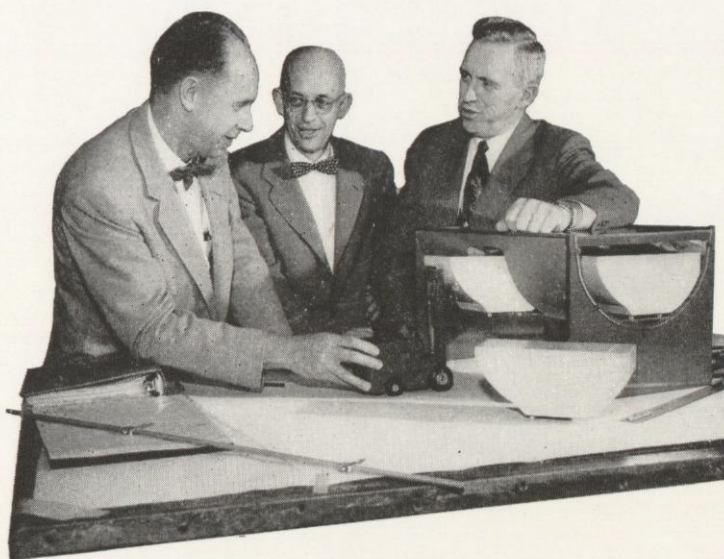
year's end, compared with 7,376 on Dec. 31, 1953. As of Dec. 31, 1954, total employees in the engineering departments had increased 220 per cent over the approximately 3,700 employed at the peak of World War II activity.

While maintaining the capability of the Seattle Division in aircraft, both the Wichita Division and the Pilotless Aircraft Division have been developed to take over an increasing proportion of the over-all engineering assignment.

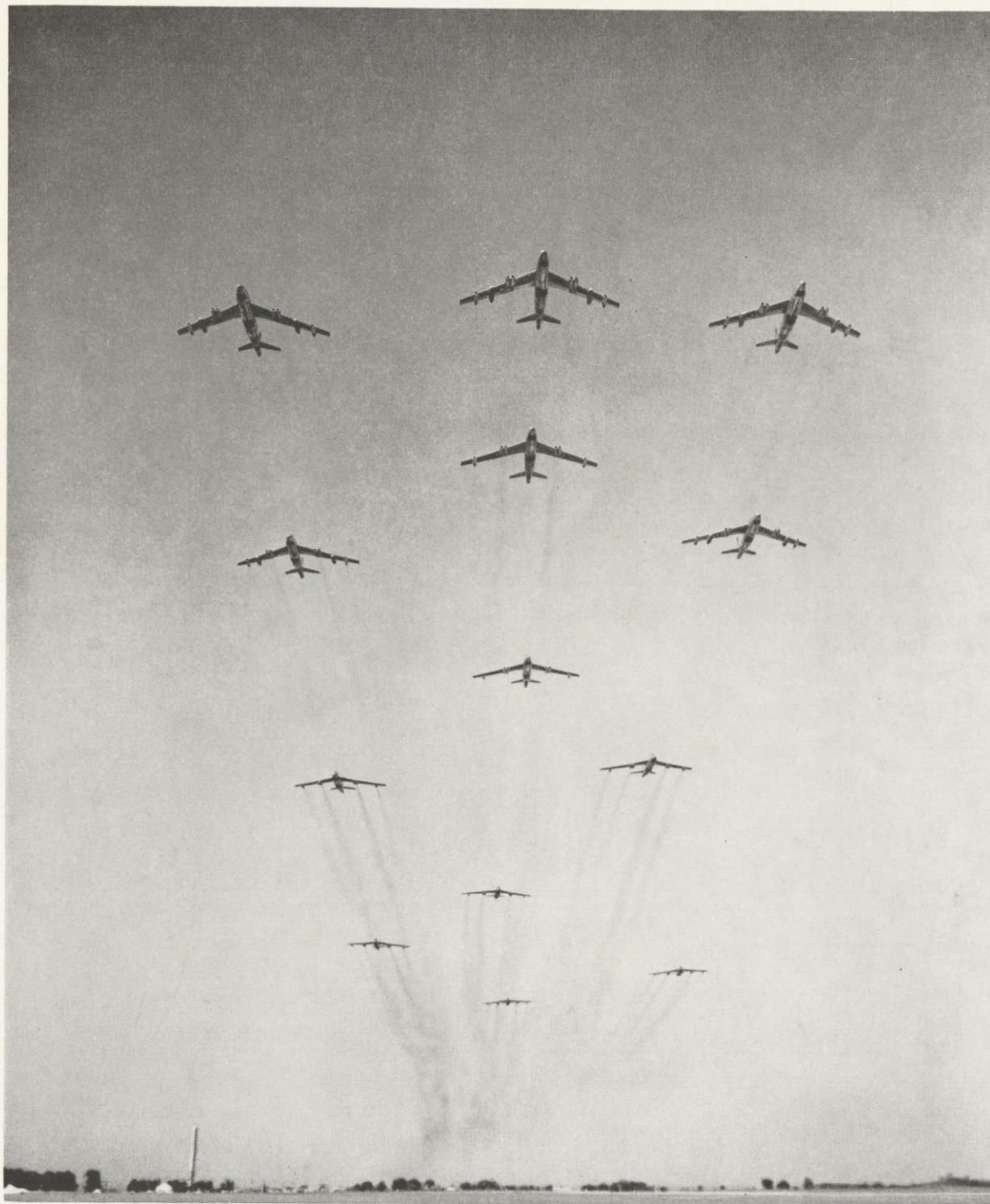
The facility improvements can be expected to increase the company's ability to develop competitive products, at the same time providing the means for developing them at minimum cost.

In addition to announced projects, preliminary development work continued at Seattle in the field of advanced propulsion, looking toward the next generation of strategic type aircraft.

Although the turbojet engine is the propulsive power found most effective in current Boeing aircraft designs, the company has also investigated the adaptability of the turbine-propeller engine for certain purposes. The company, under government contract, is testing a turbo-prop application on the B-47. During 1955 this type of power plant also will be evaluated on the KC-97.



George C. Martin (right), Seattle Division chief engineer, with Maynard L. Pennell (left), chief project engineer-aircraft, and George S. Schairer, chief of technical staff. Martin directs Seattle Division engineering department of 5,000. Pennell is in charge of aircraft projects and service section. Schairer is responsible for preliminary design, flight test and research and development staff.



Strategic Air Command now has over 1,000 Boeing B-47 medium bombers like the above, giving it great mobility and speed in defense of U.S. and the Free World.

People



The company's greatest strength lies in its people and their ability to work together as a team. Already fortunate in the type of people it has attracted, Boeing continued in 1954 to work with its employees in the further development of their skills.

As of the end of the year, more than 15,000 Boeing employees had been with the company from five to ten years, over 6,000 from 11 to 20 years and 349 from 21 to 30 years. Forty-five had served more than 30 years.

Total employment averaged 65,054 for the year, 36,251 at Seattle-Renton and 28,803 at Wichita. At year end it stood at 65,748 compared to 62,569 at the end of 1953. Based on existing schedules, company-wide payrolls are expected to remain relatively stable during 1955.

Wages and salaries totaled \$300,244,415 for the year. In addition, 5,042 officers, supervisors and other eligible employees were awarded \$3,900,000 to be distributed in cash or stock of the company under the Incentive Compensation Plan in recognition of their efforts to reduce costs and increase overall performance of the organization.

Wage increases of 4 to 6½ cents an hour for hourly employees and 2¾ per cent for salaried employees were granted during the year. Relations with collective bargaining groups, and with employees individually, continued good.

Know-how is a vital part of Boeing's strength. Numerous training programs were continued and in some cases extended during the

year. These included a variety of on-the-job classes, off-hour voluntary courses and financial assistance in attaining advanced college degrees. In off-shift classes alone, 14,615 employees spent 438,227 hours in training. The company also continued and expanded its management development programs for supervisors and sent an increasing number of department and section heads to special advanced management courses.

Retirement Plan Proposed

The Board of Directors at its March, 1955, meeting decided to submit to stockholders at a special meeting in conjunction with the annual meeting a proposed amendment to the by-laws to authorize the company to adopt a retirement plan or plans for employees, which will grant benefits for past service. The Board is of the opinion that it is to the best interest of the company that the proposed change in the by-laws be approved.

If the proposed amendment is adopted it is the Board's intention to establish a retirement plan for non-union employees. Retirement plans for bargaining groups are a subject for collective bargaining. This matter is discussed in the proxy statement accompanying this report.

Community Activities

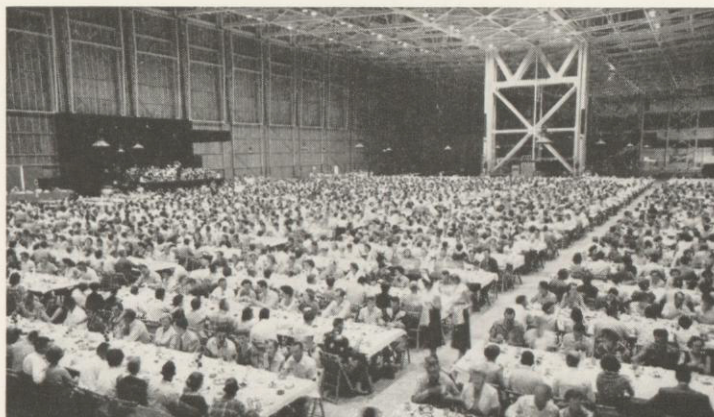
The company is aware of its civic responsibilities in each of its plant communities. In addition to financial contributions, substantial

Family Day for employees at Seattle attracted more than 55,000 persons. Shown is part of crowd inspecting prototype tanker-transport in newly-completed Flight Center.



effort was expended by company officials and employees in civic and community affairs. An outstanding example of employee participation was their combined contribution during 1954 of \$791,818 at Seattle and Wichita for local and national welfare agencies through the Good Neighbor Funds. Through the Boeing Lifeline program, employees donated 5,479 units of blood to blood banks.

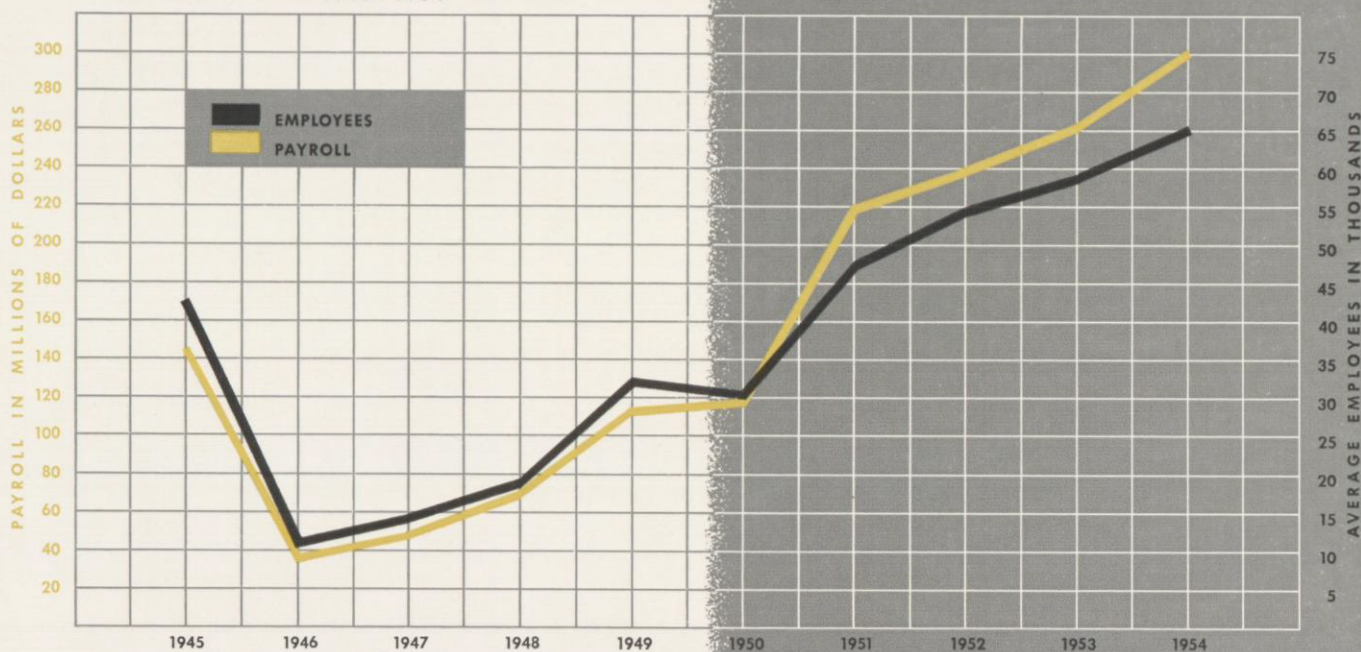
An indication of the interest of employees and their families in the company and its products was an attendance of more than 55,000 persons at the Seattle-Renton plants during a September "family day" open house.



Wichita supervisors and their wives gather in flight hangar for annual President's Night dinner. A similar once-a-year event is held for management group at Seattle.

Annual Payroll and Average Employees

1945 - 1954



Balance Sheet

BOEING AIRPLANE COMPANY

ASSETS

CURRENT ASSETS:

Cash		\$ 16,572,920
United States Treasury Bills and Notes		17,217,654
Accounts receivable—		
United States	\$ 20,108,958	
Subcontractors and others	<u>1,794,112</u>	21,903,070
Estimated amounts receivable from the United States—		
For expenditures under cost-plus-a-fixed-fee and facilities contracts and applicable fees	\$ 44,985,810	
For deliveries under contracts for which unit prices have not been established or revised	<u>39,506,262</u>	84,492,072
Accumulated charges on other than cost-plus-a-fixed-fee contracts with the United States less estimated cost (average total contract basis) of deliveries	\$343,607,386	
Less progress payments	<u>261,997,410</u>	81,609,976
Inventories of materials and parts at the lower of average cost or market		7,290,134
Prepaid expenses		<u>946,364</u>
TOTAL CURRENT ASSETS		\$230,032,190

OTHER ASSETS:

Deposits with mutual insurance companies and other items		443,464
--	--	---------

PROPERTY, PLANT, AND EQUIPMENT, at cost:

Land (\$1,091,734) and buildings	\$ 27,366,137	
Machinery, tools, and equipment	<u>19,118,565</u>	
	\$ 46,484,702	
Less allowance for accumulated depreciation and amortization	<u>24,316,907</u>	22,167,795
		<u>\$252,643,449</u>

DECEMBER 31, 1954

LIABILITIES AND STOCKHOLDERS' INVESTMENT

CURRENT LIABILITIES:

Accounts payable		\$ 77,642,198
Salaries and wages		23,289,841
Taxes other than taxes on income		2,805,174
Estimated amounts payable to the United States arising from contract price revisions		22,675,846
Incentive compensation for officers and employees		3,900,000
Allowance for contract adjustments including renegotiation, net of taxes		1,200,000
Federal and state taxes on income	\$ 40,331,607	
Less U. S. Certificates of Indebtedness—Tax series	<u>28,642,474</u>	<u>11,689,133</u>
TOTAL CURRENT LIABILITIES		<u>\$143,202,192</u>

STOCKHOLDERS' INVESTMENT:

Capital stock, par value \$5 a share—		
Authorized—5,000,000 shares		
Issued and outstanding—3,246,436¾ shares at stated value . . .	\$ 60,000,000	
Earnings retained for use in the business (after transfer to capital stock of \$21,649,080 in 1952 and \$24,796,586 in 1954)	<u>49,441,257</u>	<u>109,441,257</u>

\$252,643,449

See note to financial statements.

Statement of Net Earnings

BOEING AIRPLANE COMPANY

Year Ended December 31, 1954

Sales		\$1,033,176,265
Other income		<u>1,047,358</u>
		\$1,034,223,623
Cost of sales (excluding applicable portion of certain items set forth below in the amounts incurred during the year)	\$931,446,152	
Research and developmental expenses	8,540,796	
General and administrative expenses	8,347,022	
Depreciation and amortization	4,030,572	
Incentive compensation for officers and employees	3,900,000	
Other expenses	1,233,058	
Federal and state taxes on income	<u>39,750,000</u>	997,247,600
NET EARNINGS FOR THE YEAR		<u>\$ 36,976,023</u>

See note to financial statements.

Earnings Retained for Use in the Business

BOEING AIRPLANE COMPANY

Year Ended December 31, 1954

Balance at January 1, 1954		\$46,990,942
Net earnings for the year		<u>36,976,023</u>
		\$83,966,965
Amount transferred to capital stock by the Board of Directors in connection with the 100 per cent stock dividend	\$24,796,586	
Cash dividends, equivalent to \$3.00 a share on stock outstanding after giving effect to the stock dividend	<u>9,729,122</u>	34,525,708
Balance at December 31, 1954		<u>\$49,441,257</u>

See note to financial statements.

Note to Financial Statements

Substantially all of the company's sales for the years 1952, 1953 and 1954 are subject to renegotiation. Clearances have been received from the Renegotiation Board through the year 1951. Although it is the company's opinion that the earnings subsequent to 1951 are not excessive and that renegotiation refunds should not be required, the company has no indication as to

what the position of the Renegotiation Board may be for the subsequent years. No provision has been made in the accounts for renegotiation refunds for the years 1952, 1953 and 1954, except to the extent that the allowance for contract adjustments, including renegotiation, of \$1,200,000, net of taxes, may become available for this purpose.

Accountants' Report

TOUCHE, NIVEN, BAILEY & SMART

CERTIFIED PUBLIC ACCOUNTANTS

1411 FOURTH AVENUE
SEATTLE 1, WASH.

March 7, 1955

Board of Directors,
Boeing Airplane Company,
Seattle, Washington.

We have examined the balance sheet of Boeing Airplane Company as of December 31, 1954, and the related statements of net earnings and earnings retained for use in the business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were unable to obtain satisfactory confirmations of receivables from the United States by direct communication, but we satisfied ourselves as to such accounts by other auditing procedures.

In our opinion, subject to the effect of any adjustment that may be required for renegotiation which we are unable to evaluate, the accompanying balance sheet and statements of net earnings and earnings retained for use in the business present fairly the financial position of Boeing Airplane Company at December 31, 1954, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Also, in our opinion, the action of the Board of Directors on December 17, 1954, in setting aside the sum of \$3,900,000 for the year 1954 under the Incentive Compensation Plan for Officers and Employees, is in conformity with the provisions contained in the first paragraph of Section 2 of such plan.

Touche, Niven, Bailey & Smart

Certified Public Accountants

Five Year Condensed Co

Financial Position

As of December 31,

1954

Current assets	\$ 230,032,190
Current liabilities	143,202,192
Working capital	\$ 86,829,998
Other assets	443,464
Property, plant and equipment, net	22,167,795
Net assets	<u>\$ 109,441,257</u>
Represented by stockholders' investment in:	
Capital stock	\$ 60,000,000
Additional paid-in capital
Earnings retained for use in the business	49,441,257
	<u>\$ 109,441,257</u>
Stockholders' equity per share	\$33.71
Ratio of current assets to current liabilities	1.61 to 1

Sales, Earnings and Dividends

Sales	\$1,033,176,265
Earnings before taxes on income	76,726,023
Taxes on income	39,750,000
Net earnings	36,976,023
Cash dividends paid	9,729,122
Net earnings per share	11.39
Cash dividends paid per share	3.00
Income taxes per share	12.24
% earnings before taxes on income to sales	7.43%
% taxes on income to sales	3.85%
% net earnings to sales	3.58%

General Information

Backlog	\$2,131,000,000
Number of authorized shares of common stock	5,000,000
Number of shares outstanding	3,246,436¾
Average number of employees	65,054
Total wages and salaries	\$ 300,244,415
Gross additions to plant and equipment	5,061,959
Depreciation and amortization	4,030,572
Amortization in excess of normal depreciation	1,728,987
Square feet of floor area:	
Government owned	7,879,008
Boeing owned	3,370,705
Leased	1,630,908

NOTE: All per share figures adjusted on an equivalent basis to the 3,246,436¾ shares outstanding at December 31, 1954

Comparative Financial Data

1953	1952	1951	1950
\$ 209,715,331	\$ 164,098,702	\$ 149,713,278	\$ 116,104,125
149,496,488	113,434,313	103,834,776	70,130,211
\$ 60,218,843	\$ 50,664,389	\$ 45,878,502	\$ 45,973,914
421,918	388,069	389,839	285,317
21,553,595	16,500,488	11,525,716	7,641,149
\$ 82,194,356	\$ 67,552,946	\$ 57,794,057	\$ 53,900,380
\$ 35,203,414	\$ 35,203,414	\$ 5,412,270	\$ 5,412,270
.....	8,142,064	8,142,064
46,990,942	32,349,532	44,239,723	40,346,046
\$ 82,194,356	\$ 67,552,946	\$ 57,794,057	\$ 53,900,380
\$25.32	\$20.81	\$17.80	\$16.60
1.40 to 1	1.45 to 1	1.44 to 1	1.66 to 1
\$ 918,245,946	\$ 739,010,214	\$ 337,300,566	\$ 307,250,982
58,818,178	49,784,449	19,840,751	24,226,558
38,500,000	35,700,000	12,700,000	13,400,000
20,318,178	14,084,449	7,140,751	10,826,558
5,676,768	4,325,560	3,247,074	3,247,076
6.26	4.34	2.20	3.33
1.75	1.33½	1.00	1.00
11.86	10.99	3.91	4.13
6.40%	6.74%	5.88%	7.88%
4.19%	4.83%	3.76%	4.36%
2.21%	1.91%	2.12%	3.52%
\$2,357,000,000	\$1,648,000,000	\$1,355,000,000	\$1,000,000,000
2,500,000	2,500,000	1,250,000	1,250,000
1,623,681	1,623,681	1,082,454	1,082,454
58,716	54,677	47,699	30,524
\$ 261,682,685	\$ 238,174,873	\$ 218,220,129	\$ 117,491,202
8,009,875	6,745,430	5,175,449	2,908,572
2,795,931	1,642,244	1,197,863	804,256
1,025,848	281,192	153,636	12,110
6,806,552	6,080,412	5,541,855	5,335,505
3,301,850	2,779,333	2,577,508	2,502,302
1,471,705	1,324,696	814,307	347,204

WILLIAM M. ALLEN
President

WELLWOOD E. BEALL
Senior Vice-President

DARRAH CORBET
President, Smith Cannery
Machines Company
Seattle, Washington

C. L. EGTVEDT
Chairman

D. A. FORWARD
Senior Vice-President
The National City Bank
of New York

ARTEMUS L. GATES
Consultant
New York City

FRED P. LAUDAN
Vice-President—
Manufacturing

WILLIAM G. REED
Chairman,
Simpson Timber Company
Seattle, Washington

J. E. SCHAEFER
Vice-President—
General Manager
Wichita Division

DIETRICH SCHMITZ
President, Washington
Mutual Savings Bank
Seattle, Washington

EDWARD C. WELLS
Vice-President—
Engineering

J. P. WEYERHAEUSER, JR.
President, Weyerhaeuser
Timber Company
Tacoma, Washington

J. O. YEASTING
Vice-President—
Finance

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WILLIAM M. ALLEN.....President
C. L. EGTVEDT.....Chairman
WELLWOOD E. BEALL.....Senior Vice-President
EDWARD C. WELLS.....Vice-President—Engineering
FRED P. LAUDAN.....Vice-President—Manufacturing
J. E. SCHAEFER.....Vice-President—General Manager, Wichita Division
J. O. YEASTING.....Vice-President—Finance
A. F. LOGAN.....Vice-President—Industrial Relations
C. B. GRACEY.....Vice-President—Manufacturing, Wichita Division
J. E. PRINCE.....Vice-President—Administration, and Secretary
J. P. MURRAY.....Vice-President—Eastern Representative
EVAN M. NELSEN.....Treasurer
CLYDE SKEEN.....Controller

Officers

General Counsel

HOLMAN, MICKELWAIT, MARION, BLACK & PERKINS

General Auditors

TOUCHE, NIVEN, BAILEY & SMART

Transfer Agent

CITY BANK FARMERS TRUST COMPANY, NEW YORK CITY

Registrar

THE NATIONAL CITY BANK OF NEW YORK, NEW YORK CITY



BOEING AIRPLANE COMPANY

SEATTLE, WASH.
General Offices
7755 E. Marginal Way

WICHITA, KANSAS
Wichita Division

MOSES LAKE, WASH.
Flight Center

WASHINGTON, D. C.
403 Commonwealth
Building

DAYTON, OHIO
1002 Harries
Building

OKLAHOMA CITY
235 American National
Building

